

**MINUTES OF APRIL 6, 2016 RETIREMENT BOARD
CITY OF ALEXANDRIA
SUPPLEMENTAL RETIREMENT PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Shane Cochran, ^{1, 3} Chairman (General Schedule)	Barry Bryant, Dahab
Charles Curia (Medic, Alternate)	Paul Canning, UBS
James Davis (Management, Alternate)	Kadira Coley, Staff
Jean Kelleher ^{1,3} (Management)	Michelle Fong, Principal
Nancy McFadden (Medic)	Arthur Lynch, Staff
Laura Triggs, ^{2,3} Secretary (Management)	Juile Pierro, UBS
Lillian Vagnoni (General Schedule, Alternate)	Erin Randolph, Bailard
Valarie Wright (Deputy Sheriff, Alternate)	Preston Sargent, Bailard
Christina Zechman Brown (Management)	Todd White, Principal

Absent:

Jack Browand, ² (Management)
Brenda D'Sylva ³ (General Schedule, Alternate)
Robert Gilmore ^{1,3} (Deputy Sheriff)
Marietta Robinson (General Schedule)

¹Technical Corrections and Plan Document Review Committee

²Vendor & Service Provider

³Ad-hoc Evaluation Criteria Committee

CALL TO ORDER

The meeting was called to order at 8:34 AM on April 6, 2016.

REAL ESTATE OVERVIEW

Mr. Bryant gave an introduction and overview of real estate investments. He noted that the Board's real estate investment with PRISA is a core investment and the presentations for the day are core + which will have a higher risk profile.

- Why invest in real estate?
 - Bond alternative, does not move like stock or bond
 - REITs are volatile and trade like stocks
 - Asset class had positive returns except mid-90s and 2008
 - In 2008 bonds did very well when real estate did really poorly
 - Returns should be between stocks and bonds – approximately 8 to 9%
 - Bond expect flat or negative returns over next 3 to 5 years because interest rates are the lowest they have ever been
- What is the investment
 - Supplement allocation to real estate is not large enough to purchase our own building
 - co-mingle money with money manager
 - typical liquidity is quarterly but could be longer if there is high request for exit
 - Investment could have entry cues
 - There is no fee on monies being committed until its invested
 - Valuation – valued annually – roll into value of fund and recognize gain & loss

Mr. Browand arrived at 8:43am

- Value up or down, mark to market and rent
 - 4 to 6 regions, core in 6 gateway markets (New York, San Francisco, Washington, DC, Miami, Chicago, Los Angeles)
 - And diversify by property type
 - Tracked by ODCE – index of managers (index is made up of 28 managers in core style) create average and compare returns
- Risk
 - 3 types – property valuation, rent and occupancy risk, development risk – do they want it, can you get permits, etc.
 - Leverage – vary from 20 to 70%
 - Amount of leverage determines type of fund
 - Core leverage ranges from 20 to 30%
 - Value add – property risk and takes more rent and development risk – fix up and improve occupancy
 - Opportunistic – high risk and leverage
 - Supplemental Board is looking at core plus investment
- Managers also have core fund as well as the core plus funds we hear today
- Bailard is small and on west coast
- Mr. Bryant walked the Board through variances among the managers including geographic distribution, leverage, debt maturity, fees and returns.

REAL ESTAE FINALIST PRESENTATIONS

Principal

- Principal began their presentation at 9:08am
 - Michelle Fong – Senior Director and Product Specialist
 - Todd White – Managing Director
- Launched Core plus fund in 2004. Also offer closed end value add and opportunistic fund.
- Operate two teams “looking for deals” – Todd White is looking for what works best for this portfolio.
- Objectives – target 11 to 13% net– have met target in 9 of 10 years & 5% annual dividend
- Differentiation from core fund
 - 75% invested in stabilized companies
 - Up to 25% in value-add and developed opportunities
 - Use of leverage – can go up to 50%; typical at around 40%
 - Borrowing cost below 3.2%; 2/3 of debt is fixed rate debt
- Investment themes –
 - Focus on income growth
 - Underweight multi-family – above average supply levels and incomes are being strained, rent growth is slowing – worse performing sector in ODCE index. Believe there is some risk – only sector where occupancy rates are declining, increase in student housing near universities
 - Tech, healthcare and housing projected to be large growth areas in coming years so focus on those areas
 - Good time to sell core assets – 2015 biggest year of disposition
- Investment details
 - 40 investments, 51 investors, 38% leverage, 95% portfolio occupancy
- How long do you hold properties?

- Varies – value add up to 2 – 5 year holds, 10 years is long term hold – each year do a hold/sell analysis and reviewed quarterly, average 10-15 sell each year, actively managed
- Where does fund go when interest rates go up
 - The Fed says interest rates will be data dependent, can withstand modest increases in interest rate

Principal left at 9:45 am

Bailard

- Bailard began their presentation at 9:49 am
- Erin Randolph & Preston Sargent
 - San Francisco company since 1969
 - 6 member board in real estate
 - Fund launched in 1990
- Top down bottom up diversified portfolio
- Size is differentiator – portfolio construction takes advantage of size
- Commitment to active management
- Leverage ranges 30 from 50%, currently ~40% leveraged
- 55% of debt is fixed – average interest rate is 3.1%
- 25% value add, 77% stabilized in current portfolio
- How Bailard does core plus:
 - Buy value add properties – fix, rehab, renovation (9mos to 3 year) – then make decision and decide to hold or sell
 - Overweight apartments, underweight office – expect to maintain these weightings over the next few quarters
 - Overweight south – large investment in Houston. A good amount of time was spent discussing the large investments in Houston and what it means to the portfolio.
 - 5 year return number influenced by Texas acquisition
- A number of properties are recently closed or under contract in 1st quarter of 2016.

Bailard left at 10:27 am and was followed by a 10 minute break

UBS

- UBS began their presentation at 10:37 am
 - Paul Canning & Julie Pierro
- Investing for 37 years based out of Hartford, CT. Maintain 3 offices.
- Started as part of Aetna
- Trumbell fund established in 2006
- Investment strategy
 - Tactical investor in US real estate
 - Major market investor, may go into 2nd market
 - All investments through bottom up process
 - Buying properties then work to create stabilized asset
 - 3 to 7 year holding periods
 - Broad range of strategies – invest directly through operating partners
 - Target leverage is 50%; currently 33% (good growth in asset values & number of properties with on-going leverage)
 - Currently at 19 investments
- Portfolio distribution
 - Goal 25 to 50% “stabilized” – currently 52%
 - Discussed portfolio allocations and weightings

- Target holdings are 20 to 30 properties
- Mr. Browand left at 11:00 am
- Outlook by property typed
 - Office – purchased two buildings since 2016. – expect addition investments
 - Focus on growth in office, industrial & Retail;
- UBS left at 11:10am

REAL ESTATE FINALIST – BOARD DISCUSSION

- Bailard – concerns about the one large property and what oversight existed at that time
 - Seemed concerned that the property doing well but now too large for the size of the fund
- Concern about exposure with Bailard & UBS with such a small amount of exposure
- Why would a company sell something that is doing well? In this strategy they are trying to capitalize on the improvements cycle is buy improve then sell
- Concern about fees being higher for Principal & UBS – Mr. Bryant noted that PRISA is a core fund and they are low for core and Bailard is extremely low for core+
- Why does Bailard think their fees need to be so much lower?
- Principal – seemed very organized – trustees like their hold sell analysis
- UBS – with over 50% of portfolio in multifamily what happens when the trend changes
- Bailard has had instability in their leadership – major change in 2014

14 submissions, Dahab narrowed selections down to these 3 finalists, using performance during financial crisis, leverage and length of cues.

Mr. Curia made a motion to

Select Principal as fund's new real estate manager for the increased allocation to real estate.

Ms. Triggs seconded the motion. The motion was unanimously approved (7 – 0).

Staff noted that Dahab is working on an updated and reformatted Investment Policy Statement which will be shared at a future meeting.

NEXT MEETINGS

1. Thursday – May 12th at 8:30 AM, Sister Cities 1101, Due Diligence Meeting
2. Thursday – June 9th at 8:30 AM, Sister Cities 1101, Annual Educational Retreat

ADJOURNMENT

The meeting adjourned at 12:10 PM.

HANDOUTS

Distributed to Board members at the Meeting:

Dahab's Real Estate Finals Book
 Bailard's Real Estate Presentation
 Principal's Real Estate Presentation
 UBS' Real Estate Presentation